FINRA 2024 Annual Budget Summary

2024 Annual Budget Summary

Each year, FINRA publishes an Annual Budget Summary describing how we plan to deploy our resources to meet our various regulatory responsibilities in the current year. The Annual Budget Summary complements FINRA's audited Annual Financial Report, which summarizes our finances and operations over the prior year.

We developed the 2024 budget as part of a multi-year strategic framework designed to support our mission of protecting investors and promoting market integrity in a manner that facilitates vibrant capital markets. The budget is also consistent with FINRA's Financial Guiding Principles, which are set forth in full below. The operating expenses projected in the budget reflect our continued commitment to strengthening our capabilities, both to fulfill long-standing regulatory responsibilities and meet new challenges arising in the markets, while managing evolving workforce conditions and our expanding duties. The budget, approved by the FINRA Board of Governors (Board) in December 2023, incorporates financial projections for 2024 as of that time.

As described in the Annual Budget Summary, FINRA's 2024 operating revenues are projected to be $1,382 million. Over half of the increase from 2023 reflects the impact of previously announced targeted fee increases filed with the SEC in October 2020 with a multi-year phase-in, which FINRA had established to enable member firms to plan accordingly. The remainder of the increase is primarily driven by higher member firm revenues, which is the basis for the Gross Income Assessment FINRA collects from firms.

We project operating expenses in 2024 of $1,333 million. We have managed compensation expenses and made process and other changes to improve FINRA's long-term financial sustainability without compromising the performance of our regulatory responsibilities. The year-over-year increase in operating expenses reflects continued spending on technology to support the platforms and applications we use in our regulatory programs, higher cloud hosting costs driven by rising market volume and related data storage growth, as well as costs to address our cyber and information security needs. In addition, we project increased compensation expenses in order to maintain competitive levels of pay and, where necessary, hire new staff to address increasingly complex markets and the continued expansion of the scope of our regulatory activities and responsibilities.

Our 2024 budget also includes reduced initiative spending of $150 million. We continue to focus on investments to improve the efficiency, effectiveness and quality of our operations and regulatory and other programs. Among the investments for 2024 are projects to modernize our risk monitoring and exam program platforms, standardize investigation processes and tools, enhance our market surveillance programs, and deploy additional advanced analytics platforms and tools. We also are addressing regulatory expectations driven by the SEC or other legal requirements. The 2024 budget also includes one-time costs to augment our investor education efforts and renovate down-sized offices.

The 2024 budget continues to reflect the intentionally conservative methodology we have used in prior years, which assumes there are no fine monies available to support capital initiatives, and that there are no investment gains or losses on our financial reserves. Fine monies are excluded because we do not establish fine targets based on revenue considerations or otherwise. Under our Financial Guiding Principles, they are accounted for separately and their use must be approved by the Board or its Finance Committee for enumerated purposes. We published a separate report describing the use of fine monies from 2023, as we have for the last six years.

Based on this methodology, we expect to drawdown about $100 million from our reserves (referred to as the Potential Reserve Reliance). The Potential Reserve Reliance calculation helps us understand at the beginning of the year, for budgeting purposes, how reliant we may have to be on our reserves during the course of the year. Our actual 2024 net income or loss—which will be reflected in our 2024 Annual Financial Report—will ultimately include fines, investment returns and other accounting adjustments (as well as the financial performance of consolidated subsidiaries such as the FINRA Investor Education Foundation and FINRA CAT, LLC).

The Potential Reserve Reliance is in line with our multi-year strategic plan for financial sustainability, as described in prior communications, which contemplates a series of annual losses as we reduce the size of our reserves to a minimum targeted reserve level of one year of operating expenditures. This plan also includes maintaining our focus on prudent management of our expenses and eventually raising regulatory fees. While raising fees will be necessary, our goal is to provide member firms with sufficient advance notice to plan accordingly, and to phase fee increases in over multiple years. No new increase of regulatory fees is planned for 2024. We currently anticipate filing with the SEC later this year our plans for fee increases in subsequent years, and we will provide further details regarding these plans in due course.

As we have previously communicated, the Consolidated Audit Trail, LLC (CAT LLC) has filed with the SEC a proposed funding model to allocate the costs of the Consolidated Audit Trail (CAT) among relevant market participants, including exchanges, FINRA and broker-dealers. If this or a further modification of the CAT fee model becomes effective, FINRA will collect (and pay to CAT LLC) additional fees from member firms related to the cost of CAT, which could occur later in 2024. Additional information will be available once a CAT fee structure becomes effective. Any such CAT fees are separate and apart from FINRA's budgeted revenues and expenses for 2024 as summarized below.

FINRA remains committed to properly fund our mission of protecting investors and promoting market integrity. Consistent with our Financial Guiding Principles, we routinely update our long-term plans for financial sustainability, including managing our expenses carefully and responsibly administering our resources. We continue to welcome comments or suggestions from our member firms and other stakeholders regarding our financial and transparency initiatives.

Financial Guiding Principles

1. **Fund Our Mission** – As a not-for-profit organization, we target break-even cash flows that allow us to appropriately fund our mission of protecting investors and promoting market integrity while facilitating vibrant capital markets. Operating expenses are primarily funded through operating revenues. We rely on our financial reserves (discussed below) to support our mission, and draw upon the principal as needed.

2. **Ensure Financial Transparency** – We publish an Annual Financial Report that is prepared and presented in accordance with GAAP and audited by an independent public accounting firm. We also publish a top-line annual budget that demonstrates our primary sources of income and our primary expenses for the coming year. Following each fiscal year, we provide an accounting of the approved uses of fine monies (discussed below) during that year.

3. **Manage Expenses Responsibly** – We carefully manage expenses while ensuring that we can carry out our regulatory responsibilities effectively.

   3.1 **Compensation Oversight** – Our employees are our most important asset. We seek to offer compensation in line with the competitive market in order to attract, develop and retain high-performing individuals who can help us achieve our mission. The Board's Compensation and Human Capital Committee reviews and approves the salary structure and the annual incentive compensation pool for the organization, as well as the individual incentive compensation awards for the most senior executives. Each year, the Committee provides a report that is included in our Annual Financial Report. Although a variety of factors are considered when determining compensation levels for individual employees and the organization as a whole, no compensation determinations are based on fines or other sanctions imposed on the industry.

   3.2 **Capital Initiatives Oversight** – Appropriate investments in capital initiatives to enhance our technology and regulatory capabilities are critical to our mission. These projects are non-recurring expenditures that improve the effectiveness and efficiency of our operations; they must undergo a senior management review and approval process, with projects above defined thresholds requiring special approval by the Board or its Finance, Operations and Technology Committee (Finance Committee). These projects fall into several categories:

   - **Capital** – Expenditures for items such as building/leasehold improvements or hardware/software (such as servers, storage devices or network equipment).
   - **Minor Enhancements** – Funding for minor enhancements to existing technology applications that provide moderate new functionality, features and improvements.
   - **Mandatory Initiatives** – Funding to address regulatory expectations driven by the SEC or other legal, regulatory, audit or contractual requirements; initiatives required by technology obsolescence (such as software no longer supported by vendors); and required infrastructure support (such as cybersecurity improvements).
   - **New Initiatives** – Investments in new systems or technology that will improve our regulatory capabilities or services. These initiatives are assessed for their contribution to our operational efficiency and effectiveness, including their ability to provide demonstrable improvements to the quality of FINRA's regulatory program, tangible benefits for member firm compliance, or a measurable and acceptable financial return.
   - **Carryover Initiatives** – Projects in one of the former categories that carry over from a prior year are evaluated for continued funding.

4. **Maintain Reasonable Member Fee Levels** – We increase member fees only after evaluating other potential sources of funding (*including* drawing down on excess reserves) and determining that our expenses are appropriately calibrated to our regulatory responsibilities.

5. **Use Fines to Promote Compliance and Improve Markets** – When a member firm or registered representative engages in misconduct, restitution for harmed customers is our highest priority, although there are many cases in which it is not practical. We also assess whether a sanction should be imposed in order to discourage similar conduct by the firm, registered representative, or others. When we impose fines, the amounts are based on the facts and circumstances of the misconduct and the principles set forth in our Sanction Guidelines; fines are not based on revenue considerations, and we do not establish any minimum amount of fines that must be collected for purposes of our annual budget.

   Fines collected are accounted for separately, and the use of these monies is subject to special governance procedures, restrictions on use and transparency requirements.

   - Any use of fine monies, regardless of amount, must be separately approved by the Board or its Finance Committee. These monies are not considered in determining employee compensation and benefits.
   - The Board or Finance Committee may authorize the use of these funds for: (i) capital/initiatives or non-recurring strategic expenditures that promote more effective and efficient regulatory oversight by FINRA (including leveraging technology and data in a secure manner) or that enable improved compliance by member firms; (ii) activities to educate investors, promote compliance by member firms through education, compliance resources or similar projects, or ensure our employees are highly trained in the markets, products and businesses we regulate; (iii) capital/initiatives required by new legal, regulatory or audit requirements; or (iv) replenishing reserves (described below) in years where such reserves drop below levels reasonably appropriate to preserve FINRA's long-term ability to fund its regulatory obligations.
   - On an annual basis, we make public a description of the Board or Finance Committee-approved uses of fine monies during the prior year.

6. **Sustain Appropriate Reserves** – We rely on our financial reserves, which originally derived from the sale of Nasdaq, to support our regulatory mission. We strive to maintain an appropriate level of reserves; currently, the Board believes that level is at least one year of expenditures. Reserves are invested at the direction of the Board's Investment Committee, which provides a report that is included in our Annual Financial Report. The Board may draw upon the principal as needed, including to cover cash flow losses, defer fee increases, support FINRA's regulatory operations, enhance member firm compliance or otherwise improve markets.

The FINRA Board will review these Principles every two years.

FINRA 2024 Annual Budget Summary

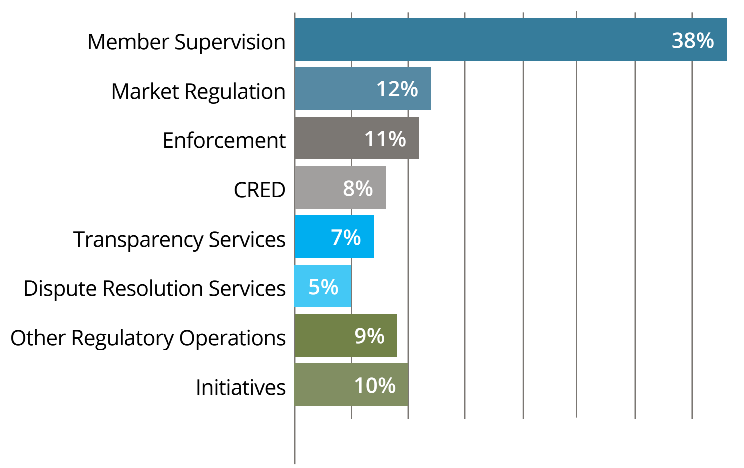
Budget summaries reflect management's internal reporting framework and differ from U.S. generally accepted accounting principles (GAAP). Annual budgets are subject to change during the year as circumstances arise.

Financial Trends *(in millions)*	**2022 Budget**[1]	**2023 Budget**	**2024 Budget**
Operating Expenses	**$1,095.0**	**$1,233.0**	**$1,333.1**
Initiatives	**$182.6**	**$187.2**	**$150.0**
Total Cash Flow Uses	**$1,277.6**	**$1,420.2**	**$1,483.1**
Operating Revenues	**$1,095.5**	**$1,157.7**	**$1,382.3**
Potential Reserve Reliance[2]	**$182.1**	**$262.5**	**$100.8**
Total Cash Flow Sources	**$1,277.6**	**$1,420.2**	**$1,483.1**

1. The budget presentation above for 2022 and 2023 has been adjusted to no longer include Interest and Dividend Income, consistent with the 2024 budget presentation.
2. The Potential Reserve Reliance excludes the impact of any Board-approved use of fine monies and investment gains/losses.

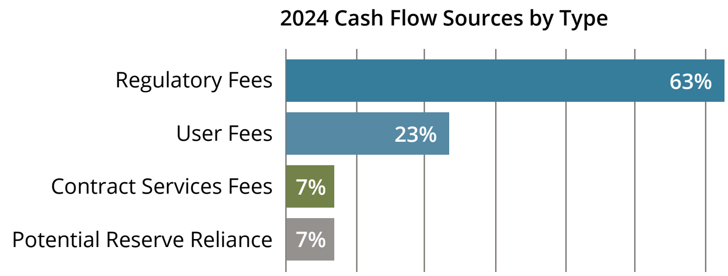
Cash Flow Uses *(in millions)*	**2024**
Member Supervision	**$556.5**
Market Regulation	**$181.3**
Enforcement	**$167.8**
Credentialing, Registration, Education and Disclosure (CRED)	**$112.1**
Transparency Services	**$101.6**
Dispute Resolution Services	**$69.7**
Other Regulatory Operations[3]	**$143.9**
Total Operating Expenses[4]	**$1,333.1**
Initiatives	**$150.0**
Total Cash Flow Uses	**$1,483.1**

2024 Cash Flow Uses by Key Function



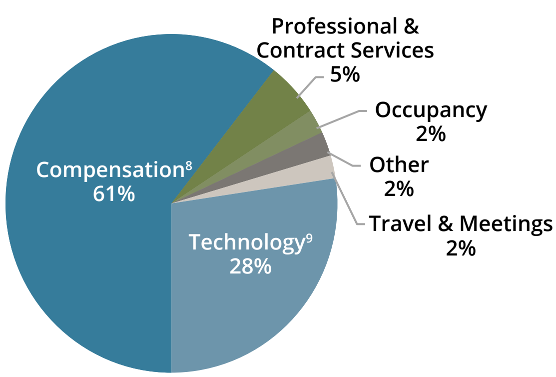
3. Other Regulatory Operations include the Office of General Counsel, Advertising Regulation, Corporate Financing, the Office of Hearing Officers, the Office of Member Relations and Education, the Office of Investor Education and other regulatory and support functions. Descriptions for Key Functions can be found on page 9.
4. Operating Expenses reflect an allocation to each key function for compensation and benefits, professional and contract services, technology and occupancy, as well as costs attributed to other general and administrative services.

Cash Flow Sources *(in millions)*	2024
Regulatory Fees[5]	$929.0
User Fees[6]	$345.9
Contract Services Fees[7]	$107.4
Total Operating Revenues	$1,382.3
Potential Reserve Reliance	$100.8
Total Cash Flow Sources	$1,483.1

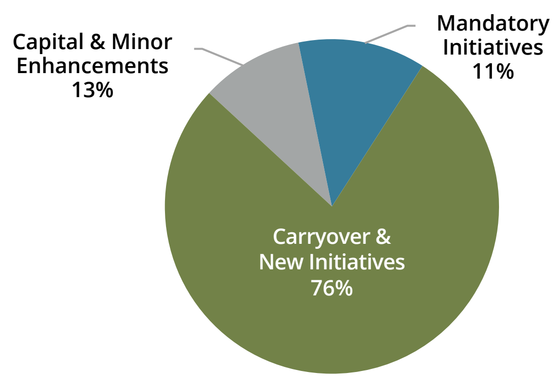


5. Regulatory Fees primarily include the Gross Income Assessment, Personnel Assessment and Trading Activity Fee.
6. User Fees primarily include Advertising Fees, Continuing Education Fees, Corporate Financing Fees, Dispute Resolution Fees, Qualification Fees, Registration Fees and Transparency Services Fees.
7. Contract Services Fees represent amounts charged for regulatory services provided primarily to markets operated by Nasdaq, NYSE, Cboe and other exchanges. These services include surveillance, investigations, examinations and disciplinary work. Contract Services Fees also include fees for the mortgage licensing system FINRA developed and maintains on behalf of the Conference of State Bank Supervisors, and fees for implementing and maintaining the Bluesheets system, eFOCUS and Form CRS on behalf of the SEC. Contract Services Fees cover the cost of the services being provided.

2024 Operating Expenses *(in millions)*



2024 Initiatives by Type[10] *(in millions)*



8. Compensation includes only non-Technology staff.
9. Technology includes costs for employee compensation; contractors; security; and hardware, cloud hosting and software support required to maintain and operate the applications and environments that enable FINRA's regulatory activities.
10. Refer to the Financial Guiding Principles for a description of the different categories of Capital Initiatives.

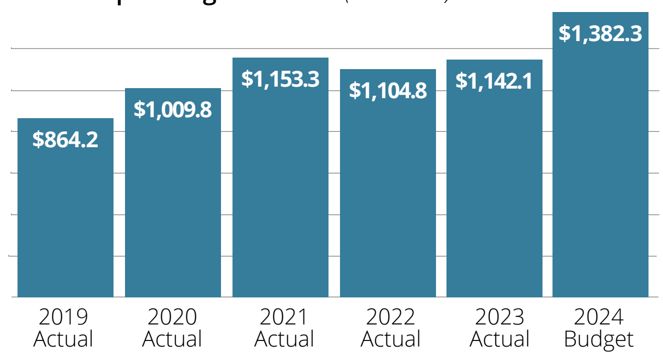
2023 Actuals are preliminary and may not reflect final year-end adjustments.

Historical Trends

Operating Revenues*

FINRA derives nearly two thirds of its revenues from industry fees that are assessed according to firms' gross revenue and trading volume, as well as firms' total number of registered representatives, while approximately 25 percent of FINRA's revenues is derived from user fees, including registration fees and qualification fees. Operating revenue peaked in 2021 due to continued market volatility driving higher trading volume, as well as record-breaking public offering filing volume, but declined in subsequent years as market volume settled and public offering filing volume returned to more normal levels. Operating revenue is expected to increase in 2024, primarily stemming from higher firm revenues driving higher Gross Income Assessment fees, as well as the third year impact of approved fee increases. More detail is available on the next page.

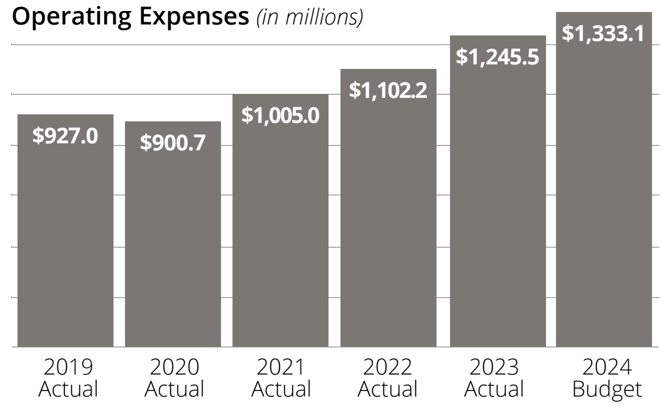
Operating Revenues *(in millions)*



Operating Expenses*

Ninety percent of FINRA's operating expenses are driven by compensation and technology costs. Cost-saving efforts over the last five years have included managing compensation expenses and making process and other improvements in a manner designed to improve FINRA's long-term financial sustainability without compromising the performance of our regulatory responsibilities. For example, all officer salaries were held flat in 2021, and in 2020 and 2024, we implemented a voluntary incentive program designed in part to manage long-term compensation costs. (The voluntary incentive program offers the opportunity to eligible employees to voluntarily terminate their employment with FINRA with certain benefits.) In addition, we are continuing to identify opportunities to better leverage technology to do our work and become more efficient. Operating expense increases since 2021 are partially driven by annual compensation increases due to wage inflation and competitive labor markets, technology growth for new applications in production, and hiring additional staff to meet our increased regulatory responsibilities.

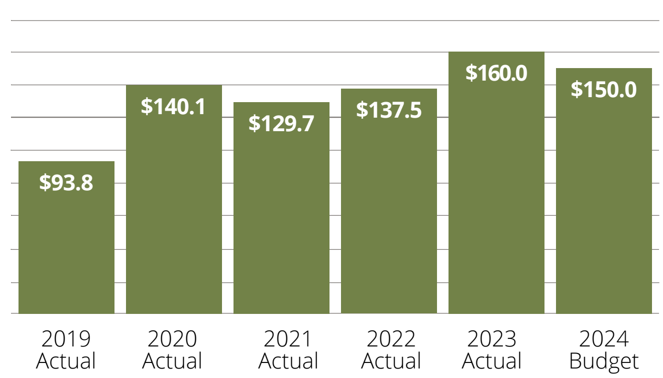
Operating Expenses *(in millions)*



Initiatives*

Initiative spending varies from year to year based on the need to enhance regulatory and related technology capabilities. We anticipate Initiative spending of $150.0 million for 2024 to continue to focus on improving the efficiency, effectiveness and quality of our operations and regulatory and other programs; mandatory program enhancements; costs to expand our investor education efforts; and renovations for down-sized offices.

Initiatives *(in millions)*

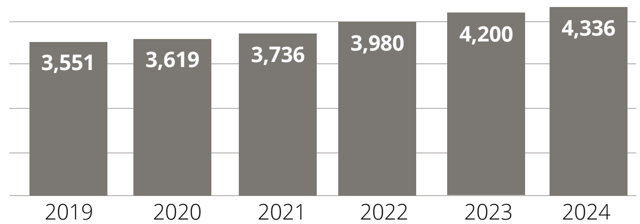


* Historical results reflect internal management reporting and will differ from GAAP, which includes depreciation and other accounting adjustments.

Workforce

FINRA's growth in headcount since 2019 is largely attributable to contractor conversions and additional staff needed to support regulatory operations in order to respond to the demands of an evolving marketplace and expansion in FINRA's regulatory responsibilities. Headcount (excluding Technology) remained relatively flat from 2015 to 2020. Nearly 350 contractors and temporary employees have been converted to full-time staff since 2019.

Headcount*



*Reflects budgeted headcount and does not include contractors.

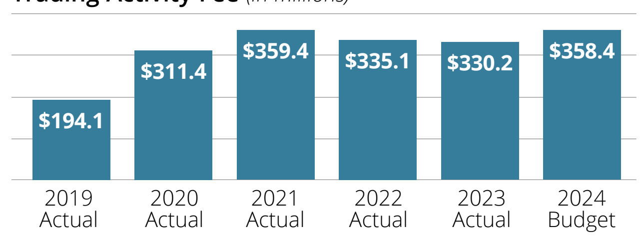
Historical Operating Revenue Trends

The following provides a five-year look back at the four fees that represent FINRA's largest sources of operating revenue. 2023 Actuals are preliminary and may not reflect final year-end adjustments. Trading Activity Fees, Gross Income Assessment, Personnel Assessment and Registration Fees for 2022 through 2024 reflect the impact of approved fee changes.

Trading Activity Fee

The Trading Activity Fee is a transaction-based fee that is assessed monthly on firm trading activity in covered securities across all markets. Increases since 2019 are driven by market volatility due in part to the impact of COVID-19.

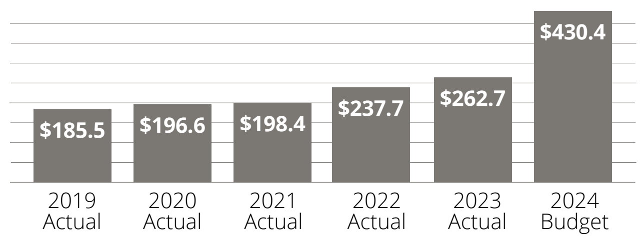
Trading Activity Fee *(in millions)*



Gross Income Assessment

The Gross Income Assessment is an annual fee that is assessed based on the firm's prior year's total gross revenue less commodities revenue and is based on a tiered rate structure. Increases since 2019 were driven by an increase in firm revenues.

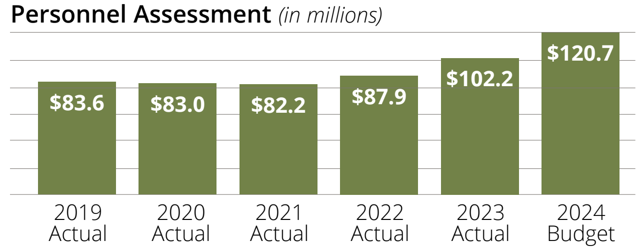
Gross Income Assessment *(in millions)*



Personnel Assessment

The Personnel Assessment is an annual fee that is assessed based on the firm's number of registered representatives as of December 31 of the previous year and is applied to a regressive tiered rate structure.

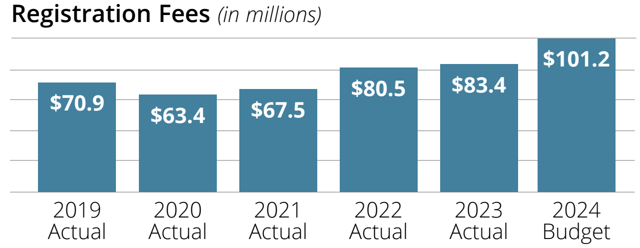
Personnel Assessment *(in millions)*



Registration Fees

Registration Fees include fees for various registration-related requirements for firms and registered securities representatives in the industry such as initial registration, fingerprinting, disclosures and terminations.

Registration Fees *(in millions)*



Key Functions

The 2024 budget is allocated according to the following key functions.[13]

Member Supervision

38%

Member Supervision monitors and examines for member compliance with industry rules and regulations, and works to detect and address possible fraud or other misconduct.

Market Regulation

12%

Market Regulation conducts automated surveillance and investigations of trading activity in U.S. equities, options and fixed income markets.

Enforcement

11%

Enforcement investigates possible misconduct and brings disciplinary actions for violations of industry rules and regulations.

Credentialing, Registration, Education and Disclosure

8%

Credentialing, Registration, Education and Disclosure operates FINRA's utilities to register and test securities industry personnel, and provides those same services under contract for the benefit of investment advisers and mortgage brokers.

Transparency Services

7%

Transparency Services operates facilities that support the reporting and real-time dissemination of market information for over-the-counter (OTC) trading in the equity and fixed income markets including the Trade Reporting and Compliance Engine (TRACE).

Dispute Resolution Services

5%

Dispute Resolution Services operates a dispute resolution forum for investors, brokerage firms and their registered employees, and administers arbitrations and mediations through a network of four regional offices, with 70 hearing locations, including one in each state and Puerto Rico.

Initiatives

10%

Initiatives are non-recurring expenditures that improve the effectiveness and efficiency of our operations, the ongoing transformation of our regulatory programs, as well as other mandatory intiaitives, capital and minor enhancements.

Other Regulatory Operations

9%

FINRA's other regulatory operations include the Office of General Counsel, Advertising Regulation, Corporate Financing, the Office of Hearing Officers, the Office of Member Relations and Education, the Office of Investor Education and other regulatory and support functions.

FINRA's **Office of General Counsel** assists FINRA in adopting and interpreting rules applicable to securities firms and brokers. FINRA solicits comment on its proposed rules from its members, investors and other interested parties, and, with limited exceptions, all FINRA rules must be approved by the SEC.

Advertising Regulation oversees compliance with rules intended to ensure that member communications to the public are fair, balanced and not misleading.

Corporate Financing assists FINRA-regulated firms in complying with FINRA rules and federal securities laws by reviewing documents related to firms' capital-raising activities and arrangements.

The **Office of Hearing Officers** is an office of impartial adjudicators of disciplinary cases brought by FINRA's Enforcement Department against FINRA members.

The **Office of Member Relations and Education** is responsible for maintaining and enhancing open and effective dialogue with FINRA member firms, and oversees FINRA conferences and the FINRA Institute at Georgetown Certified Regulatory and Compliance Professional program.

The **Office of Investor Education** provides investors with financial tools and resources; and through the FINRA Investor Education Foundation®, FINRA supports important research and financial education initiatives.

The Annual Budget Summary does not include the FINRA Investor Education Foundation and FINRA CAT, LLC. FINRA's Annual Financial Report includes the consolidated results of FINRA, the Foundation and FINRA CAT, LLC.

FINRA Investor Education Foundation

The Foundation empowers underserved Americans with the knowledge, skills and tools to make sound financial decisions throughout life. The Foundation supports innovative research and educational projects aimed at segments of the investing public that could benefit from additional resources.

FINRA CAT, LLC

FINRA CAT, LLC acts as the Plan Processor of the Consolidated Audit Trail (CAT) system, the central repository of trades, quotes and orders for all U.S. exchange-listed and over-the-counter equity securities and U.S. exchange-listed options contracts across all U.S. markets and trading venues.

11. The 2024 budget by key function represents an allocation of operating expenses for compensation and benefits, professional and contract services, technology, and occupancy, as well as costs attributed to other general and administrative services.

Investor protection. Market integrity.

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